

Cambridge **TECHNICALS LEVEL 3**

BUSINESS



Combined feedback on the January 2017
Exam Paper
(Including selected exemplar candidate
answers and commentary)

Unit 1 – The business environment
Version 2

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INTRODUCTION

This resource brings together the questions from the January 2017 examined unit 1, the marking guidance, the examiners comments and the exemplar answers into one place for easy reference.

We have also included exemplar candidate answers with commentary for questions 24 and 30.

The marking guidance and the examiner's comments are taken straight from the Report to Centre for this question paper.

The Question Paper, Mark Scheme and the Report to Centre are available from Interchange.



Level 3 Cambridge Technical in Business
05834/05835/05836/05837/05878

Unit 1: The business environment
Tuesday 10 January 2017 – Afternoon
Time allowed: 2 hours

You must have:

- a clean copy of the research brief (sheet CACT)

You may use:

- a calculator

First Name Last Name

Centre Number Candidate Number

Date of Birth

INSTRUCTIONS


- Use black ink.
- Complete the boxes above with your name, centre number, candidate number and date of birth.
- Answer all the questions.
- Write your answer to each question in the space provided.
- Additional paper may be used if required but you must clearly show your candidate number, centre number and question number(s).

INFORMATION

- The total mark for this paper is 90.
- The marks for each question or part question are shown in brackets [].
- This document consists of 20 pages.

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Cambridge Technicals
Business

Unit 1: The business environment
Level 3 Cambridge Technical Certificate/Diploma in Business
05834 - 05878

Mark Scheme for January 2017

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Cambridge Technicals
Business

Level 3 Cambridge Technicals Certificates in Business 05834, 05835
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OCR Report to Centres January 2017


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PRE-RELEASE MATERIAL

The question paper is based on a pre-release research brief which is issued to centres 6-8 weeks before the examination.

Questions in the question paper will ask learners to draw on the knowledge and understanding gained through researching businesses in their local area which are similar to the business in the research brief.

The pre-release Research Brief can be found on Interchange.



To be opened on receipt
LEVEL 1/2 CAMBRIDGE NATIONAL IN ICT
R001/01 Understanding Computer Systems
PRE-RELEASE CASE STUDY

JUNE 2014

INSTRUCTIONS TO TEACHERS

- This pre-release material may be given to candidates at any time after receipt by the Centre.

INFORMATION FOR CANDIDATES

- You may make yourself familiar with the pre-release material before you take the examination.
- You must not take notes into the examination.
- A clean copy of this pre-release material will be given to you with the question paper.
- You must not take this copy of the pre-release material into the examination.
- This document consists of 4 pages. Any blank pages are indicated.

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GENERAL EXAMINER COMMENTS ON THE PAPER

OCR
Oxford Cambridge and RSA

Level 3 Cambridge Technical in Business
05834/05835/05836/05837/05878

Unit 1: The business environment

Tuesday 10 January 2017 – Afternoon
Time allowed: 2 hours

You must have:
• a clean copy of the research brief (Insert C421)

You may use:
• a calculator

First Name Last Name

Centre Number

Candidate Number

Date of

Examiners have been pleased to see some exceptionally good papers at this first sitting of the unit. Such papers show that candidates have been well prepared for the examination. Candidates who did well demonstrated five particular strengths:

- good knowledge and understanding across the entire unit
- numerical skills of calculation and interpretation
- research of a wide variety of businesses, targeted to the research brief
- the ability to apply understanding to the unseen scenario in section C
- the ability to analyse and evaluate.

Sadly, some candidates exhibited a significant lack of knowledge and little, if any, specific research; possibly indicating that they have been entered for the examination far too early in their course of study. Given that candidates can only resit the examination for this unit once, centres should ensure that candidates are fully prepared before taking this assessment.

Section A of the paper was generally well answered by most candidates. Disappointingly, some candidates lost marks by leaving a question blank. In a multiple choice section, this is poor examination technique. Candidates should be encouraged to indicate a response to all 20 questions. A minority of candidates also lost marks because they ticked two responses, say A and D. Such hedging cannot be awarded and candidates should be instructed not to take this approach. Where a candidate indicates an answer and subsequently changes their mind, they should clearly cross out their original tick.

Section B appeared to reveal that those candidates who had studied a wide range of businesses were able to select an appropriate business to answer each of the five questions. Candidates should be encouraged to vary the businesses they use, depending on the question i.e. to choose a specific business for which their understanding is suitable for answering the question. Candidates who chose to answer all five questions using the same business appeared to do less well.

Section C contained three high-tariff extended response questions. These questions are levels-of-response marked. Candidates need to demonstrate the skills of analysis (Level 3) and evaluation (Level 4) to gain the highest marks. An analytical response must contain implications for the business, for example impact on sales, costs, profits, cash flow, customer loyalty, reputation and future performance. In addition to analysis, an evaluative response must contain a reasoned judgement. Candidates should be encouraged to reach decisions and give detailed justification to support their argument using contextual information. Whilst an accurate judgement that applies to most businesses would achieve a low Level 4 mark, an answer which argues using the particular circumstances of the business scenario given in Section C will be rewarded more highly.

The ability of candidates to answer questions requiring numerical skills, both in the multiple choice section and Section C, varied significantly. Centres are advised to give their candidates a great deal of practice at answering both calculation and numerical interpretation questions. One way of doing this would be to display a short numerical question as a starter to each lesson, which candidates can tackle as they arrive into the classroom. This makes good use of time and allows numerical skills to be emphasised and improved over time.

Areas which caused most problems on this paper were sources of finance and the Data Protection Act. On the other hand, question 22, relating to not listening to local residents and question 32, requiring recommendations to deal with high unemployment levels, were well answered.

Questions 1, 2 and 3

Section A

Answer **all** questions. Put a tick (✓) in the box next to the **one** correct answer for each question.

1 Which of the following would be classified as an external stakeholder of a private limited company?

(a) Directors

☐

(b) Employees

☐

(c) Partners

☐

(d) Pressure Groups

☒

[1]

2 A cash flow statement:

(a) calculates how much profit a business has made

☐

(b) lists the expected cash inflows and outflows of a business

☐

(c) records the actual money flows of a business

☒

(d) shows the net worth of a business

☐

[1]

3 A business operating as a partnership:

(a) has at least two shareholders

☐

(b) must share profits between the owners

☒

(c) pays corporation tax

☐

(d) requires a certificate of incorporation

☐

[1]

Mark scheme guidance

One mark for each correct answer.

Examiner comments

Question 3 – this question revealed a general lack of knowledge about legal forms of business ownership. The most common, and incorrect answer was A. This shows that many candidates do not have an understanding of the difference between business partnerships and limited companies.

Questions 4, 5 and 6

- 4 Which of the following functional areas of a business is **most** likely to be responsible for recruiting new staff?

(a) Business support services

☐

(b) Finance

☐

(c) Human resources

☒

(d) Operations management

☐

[1]

- 5 Which of the following are likely to be fixed costs for a clothing manufacturer?

(a) Business rates and insurance

☒

(b) Fabric and thread

☐

(c) Sewing machines

☐

(d) Zips and buttons

☐

[1]

- 6 Which of the following is the correct definition of the term 'margin of safety'?

(a) The amount by which output can fall before a loss is made

☒

(b) The maximum output that a business can produce

☐

(c) The minimum level of output needed to make a profit

☐

(d) The output level at which no profit or loss is made

☐

[1]

Mark scheme guidance

One mark for each correct answer.

Questions 7, 8 and 9

7 The role of a manager is lower in status than the role of:

(a) a Director

☒

(b) a Supervisor

☐

(c) an apprentice

☐

(d) an operative

☐

[1]

8 The Marketing Department of a public limited company fails to inform the Production Department of a proposed advertising campaign. This is an example of:

(a) centralised decision making

☐

(b) employee empowerment

☐

(c) poor communication between business functions

☒

(d) the division of work in a large organisation

☐

[1]

9 A hierarchical organisational structure has:

(a) a short chain of command

☐

(b) limited opportunities for delegation

☐

(c) many tiers of responsibility

☒

(d) no management function

☐

[1]

Mark scheme guidance

One mark for each correct answer.

Questions 10, 11 and 12

- 10** Natalie is a sole trader; she makes footstools in her workshop at home. She estimates her costs and revenues for 2017 will be as follows:

- Fixed costs: £4200 per annum
- Raw materials: £8 per footstool
- Labour costs: £6 per footstool
- Selling price: £38 per footstool

If Natalie makes and sells 300 footstools in 2017 her profit would be:

- (a) £175
- (b) £3000
- (c) £7200
- (d) £11400

[1]

- 11** Business activity can be classified into three sectors: primary, secondary and tertiary. Which of the following is an example of a primary sector business?

- (a) A bakery
- (b) A supermarket
- (c) An apple orchard
- (d) An art gallery

[1]

- 12** Which of the following changes in the external environment of a business would be classified as a technological factor?

- (a) Employees demanding more flexible working hours
- (b) Government initiatives to reduce pollution levels
- (c) New ways to pay for goods from a mobile phone
- (d) The increasing popularity of online gaming

[1]

Mark scheme guidance

One mark for each correct answer.

Examiner comments

10 – Worryingly, few candidates showed any evidence of trying to work out this calculation on paper. The correct method for working out this question was rarely seen: $£38 \times 300 - (£4200 + £14 \times 300) = £11400 - £8400 = £3000$.

Questions 13, 14 and 15

13 Birmingham City Council is a local government authority. All UK local government authorities:

(a) are community interest companies

☐

(b) are privately funded

☐

(c) can sell shares on the stock exchange

☐

(d) operate in the public sector

☒

[1]

14 Which of the following is a non-financial factor which may affect the future success of a manufacturing company?

(a) Cost of sales

☐

(b) Profit

☐

(c) Revenue

☐

(d) Workforce motivation

☒

[1]

15 A change in the government of a country is **most** likely to lead to:

(a) a reduction in parliamentary bureaucracy

☐

(b) increased business uncertainty

☒

(c) no change in political priorities

☐

(d) reduced business risk

☐

[1]

Mark scheme guidance

One mark for each correct answer.

Examiner comments

13 – Many candidates mistakenly thought that local government authorities were community interest companies. This reveals many candidates' underlying confusion regarding the difference between the private, public and third sectors.

Questions 16, 17 and 18

16 Which of the following is **not** an environmentally friendly business practice?

- | | |
|---------------------------------------|-------------------------------------|
| (a) installing solar panels | <input type="checkbox"/> |
| (b) reducing carbon emissions | <input type="checkbox"/> |
| (c) sending waste to landfill | <input checked="" type="checkbox"/> |
| (d) using recycled packaging material | <input type="checkbox"/> |

[1]

17 A bracelet manufacturer has costs as follows:

- Precious metal: £26 per bracelet
- Labour: £60 000 per annum
- Overheads: £120 000 per annum.

If the average selling price of a bracelet is £62, the break-even level of output would be:

- | | |
|------------------------------|-------------------------------------|
| (a) 2000 bracelets per annum | <input type="checkbox"/> |
| (b) 2904 bracelets per annum | <input type="checkbox"/> |
| (c) 5000 bracelets per annum | <input checked="" type="checkbox"/> |
| (d) 6924 bracelets per annum | <input type="checkbox"/> |

[1]

18 A company is conducting a SWOT analysis. Which pair of categories contains factors which are beyond the company's control?

- | | |
|---------------------------------|-------------------------------------|
| (a) Opportunities and Threats | <input checked="" type="checkbox"/> |
| (b) Strengths and Opportunities | <input type="checkbox"/> |
| (c) Threats and Weaknesses | <input type="checkbox"/> |
| (d) Weaknesses and Strengths | <input type="checkbox"/> |

[1]

Mark scheme guidance

One mark for each correct answer.

Examiner comments

18 – This question tested a candidate's understanding of SWOT analysis at the most basic of levels. Opportunities and Threats are external factors beyond a business' control. Strengths and Weaknesses are internal factors within a business' control.

Questions 19 and 20

19 Which of the following groups is **most** likely to be interested in a company's level of dividend?

(a) central government

(b) customers

(c) shareholders

(d) suppliers

[1]

20 A company makes and sells a faulty batch of wooden toys. The toys have been painted with a toxic paint which could cause serious harm. The company has broken the:

(a) Companies Act

(b) Consumer Protection Act

(c) Consumer Rights Act

(d) Copyright, Designs and Patents Act

[1]

Mark scheme guidance

One mark for each correct answer.

Questions 21 and 22

Section B

Answer **all** questions in this section.

All of the questions in this section should be answered in relation to businesses you have researched.

- 21** Identify **one** financial aim and **one** non-financial aim of a business you have researched.

Name of business
Activity of business
 Financial aim
 Non-financial aim [2]

Responses include

Financial aim: to breakeven, to make money, to be profitable, to increase revenue, improve cash flow, reduce costs.

Non-financial aim: responses include: to survive, to expand/grow, to improve customer service/satisfaction, to increase output, to become the market leader, to help those in need, to improve reputation, to be environmentally friendly, to be safe, to raise awareness, to be clean and tidy, to buy equipment.

- 22** Explain **two** likely consequences to a business that you have researched of **not** listening to the concerns of local residents.

Name of business
Activity of business
1

2
 [4]

Responses include

Receive complaints, conflict, lack of goodwill, protests, bad reviews, campaigns, petitions, involvement of local MP, involvement of local council, involvement of pressure groups, bad publicity, poor reputation, legal action and objection to planning applications.

Exemplar response

Name of business: Bread Supreme Ltd

Activity of business: Bakery

Local residents may object to any planning applications the company put in (1 mark).

If enough objections are raised the company's planning application is likely to be rejected (1 mark).

Mark scheme guidance

21 - One mark for a correct identification of a financial aim. One mark for a correct identification of a non-financial.

Aims need to be appropriate for the business which the learner has researched.

'Growth' and 'survival' (unless qualified) should be taken to be non-financial.

Accept 'keep customers happy' as 'customer satisfaction'.

22 – One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two explanations.

Accept explanations of cause or consequence.

Accept consequences of local residents as customers.

Do **not** award repetition.

Answer should be appropriate for the business which the learner has researched.

Examiner comments

21 – Generally well answered, most candidates were able to suggest a financial and non-financial aim. When full marks were not achieved, it was usually the financial aim that was not awarded. In such cases the candidate often confused numerical aims with financial aims e.g. 'increasing output' is an aim measured by a number, but it is not financial.

22 – Most candidates were able to explain at least one consequence to a business of not listening to the concerns of its local residents. The most common mistake on this question was to give an answer about a different stakeholder e.g. workers going on strike or suppliers not supplying to the business.

Question 23

- 23** Describe **two** activities which are part of the job role of a customer services assistant in a business that you have researched.

Name of business

Activity of business

1

.....

2

.....

[4]

Responses include

Serve on the help desk, answer telephone calls, listen to customers, help/advise customers, liaise with customers, manage customer expectations, investigate problems, check receipts, search the stock database, resolve queries, sort out problems, issue refunds, deal with replacements and returns.

Exemplar response

Name of business: Marks and Spencer

Activity of business: Clothing retailer

They must greet the customers (1 mark) who come to the help desk politely (1 mark).

Mark scheme guidance

One mark for each correct identification up to a maximum of two identifications, plus a further one mark for each of two developments

NB description not explanation required for second mark i.e. how not why.

Must be an activity. Must be part of customer service job role.

Answer must be appropriate for the business which the learner has researched.

Look for an activity or what first. Without a 'what' no marks can be awarded.

Examiner comments

This question required description, not explanation. The most common correct answers were 'dealing with complaints' and 'helping customers find goods in the store'. Each of these is fine for one mark. However, to get the description mark the candidate needs to give detail of 'how' this is done, not 'why' this is done. So, for example 'dealing with complaints **(1 mark)** by answering social media messages **(1 mark)**' and not 'dealing with complaints **(1 mark)** to ensure that the customer is happy with the service received **(0 mark)**'.

Many candidates appeared unsure as to the precise role of customer services. Answers which related to tasks which would be performed by sales, marketing or human resources function were frequently given and could not be awarded.

Question 24

- 24** Analyse **two** sources of finance that a business you have researched could use to fund its expansion plans.

Name of business

Activity of business

1

.....

2

.....

[4]

Responses include

Owners' savings (sole trader, partnership), company reserves/retained profits, loan, mortgage, hire purchase, trade credit, venture capitalist, share issue/get more investors, crowd-funding, overdraft, credit card, government funding, donations, sponsorship.

Exemplar response

Name of business: Barkers Ltd

Activity of business: Pet Shop

The company could pay for the expansion from its reserves (1 mark). This would mean that it did not need to use expensive external sources of finance (1 mark) keeping the cost of the expansion to a minimum (1 mark).

Mark scheme guidance

One mark for a correct identification up to a maximum of two identifications, plus one mark for each of two explanations and a further one mark for each of two analyses.

Award second mark for benefits or drawbacks of methods required. Do **not** award uses of the funds.

Answer should be appropriate for the business which the learner has researched.

Examiner comments

Disappointingly answered. The question required candidates to name a source of finance, give an advantage or disadvantage of this source and analyse the impact of their chosen advantage or disadvantage. Most candidates managed to name two sources; however after that their answers veered off course with many suggesting how the business could spend the funding.

Exemplar candidate work

Question 24 – low level answer

- 24 Analyse **two** sources of finance that a business you have researched could use to fund its expansion plans.

Name of business Tesco

Activity of business Secondary and tertiary

1. One source of finance that Tesco uses is trade credit. This means that Tesco uses this finance to order raw materials and manufactured products to the business.

2. Another source of finance that Tesco uses is government grants. This means that the government is giving Tesco accountability in order to gain finance within the business.

[6]

(1)

Commentary

This question requires candidates to name two appropriate methods of finance for their chosen business; explain a benefit or drawback of the method; and analyse the implication to the business of the benefit/drawback suggested.

This candidate suggests two sources of finance – trade credit and government grants. The methods are then described, but not explained or analysed.

Whilst trade credit is appropriate for all businesses, sadly their choice of Tesco means that a government grant cannot be awarded as an appropriate source of finance. Government grants were accepted as appropriate sources of finance for charities and other voluntary sector businesses. One mark is therefore awarded for naming one suitable source of finance 'trade credit'.

To gain the full three marks for response 1, the candidate could have suggested any drawback or benefit of using trade credit. Possible drawbacks include – only available on small purchases or certain types of purchases. Possible benefits include buy now but pay later, low cost or interest free. One of these explanations should then have been analysed to show the impact on the business e.g. trade credit (1) allows them to buy now and pay later (1), improving cash flow (1).

Other sources of finance which would be deemed suitable for Tesco would include retained profits, loan, mortgage, share issue, overdraft etc.

Question 24 – medium level answer

- 24 Analyse **two** sources of finance that a business you have researched could use to fund its expansion plans.

Name of business Candy Apple Couture

Activity of business Secondary and tertiary sector - makes and sell Candy Apples

1. could get a bank loan ✓ This would enable her to expand the business and get more revenue. However she would have to pay interest ✓ on top of the loan money she borrowed, so could end up worse off. ^{BOD} But as long as enough profit is made and a decent amount is left from sales after business expenses are paid she should be alright.

2. she could also find an investor ✓ for her business. This would provide her with money in order to expand so she could increase revenue. However when the investor ~~to~~ could end up losing money if the business ends up falling through.

[6] (4)

Commentary

This answer begins well with the candidate suggesting that the Candy Apple business could get a bank loan. This is an appropriate source of finance for all types of business and was awarded a mark. The response also explains a drawback of this method of finance i.e. 'have to pay interest', scoring an additional one mark. This drawback is then analysed to suggest that paying the interest on top will make the business worse off. Whilst an expression such as 'make lower profits' or 'increased costs' would have been preferable, the candidate clearly understands the implication of having to pay interest on the loan and is awarded one additional mark for analysis, thus scoring the full three marks for response one.

In the second response 'find an investor' is awarded as an appropriate source of finance. However, the remainder of the answer fails to score any further marks. Sentence two, relating to expansion, simply repeats the question and, in any event, is a use for the source of finance not a benefit or drawback of the method. Whilst the final sentence is a drawback to the investor rather than to the business.

To improve this answer the candidate needs to suggest a benefit or drawback to the business of finding an investor. Some common correct answers relating to investors were – 'loss of control' (drawback) and 'low cost' (benefit). Either of these valid points could then have been analysed – e.g. 'loss of control' may mean the business takes a different direction to what the original owners intended or 'low cost' may mean the business can make higher profits as it does not have interest charges to pay.

Question 24 – high level answer

24 Analyse **two** sources of finance that a business you have researched could use to fund its expansion plans.

Name of business *Robinson Fruit and Veg*

Activity of business *Greengrocer – retail*

1 *Could get an overdraft but overdrafts have high interest rates. This means that the shop will have*
... higher costs.

2 *Could get a mortgage. This can be paid back in small instalments over a long period of time.*

[4]

Commentary

This is a good answer. The candidate gives two appropriate sources of finance for a greengrocer – an overdraft and a mortgage.

Response 1 gains three marks because it includes a drawback of the method 'high interest rates' and an analysis of the consequence of this drawback i.e. 'higher costs'.

Response 2 gains two marks. It includes two advantages – 'small instalments' and 'long period of time' but neither of these are analysed.

Analysis involves detailing the consequential links in a chain. In this case what is the consequence of being able to repay in small instalments or being able to repay over a long period of time? A good answer would link these advantages to, say, effective budgeting or improved cash flow management and would move the answer to full marks.

Question 25

- 25** Explain how the organisational structure of a business that you have researched affects its internal communications.

Name of business

Activity of business

[4]

Responses include

- *Organisational structure of selected business e.g.: flat, hierarchical, centralised, decentralised, matrix, by function, by produce etc. (1 mark).*
- *Impacts on internal communications e.g. chain of command, speed, quality, responsiveness to change, top down, bottom up, span of control, empowerment, delegation, alienation, remoteness, miscommunication, non-communication, barriers to effective communication, poor communication between functional areas.*

Exemplar response

Name of business: *Pavin's PLC*

Activity of business: *Carpet manufacturer*

Pavin's plc has a tall structure (1 mark). Messages must be passed down through many levels before they reach the operatives (1 mark). This makes the communication slow (1 mark) and introduces many opportunities for the messages to be miscommunicated or misunderstood (1 mark).

Mark scheme guidance

One mark for identification of organisational structure plus one mark for each point of development, to a maximum of three developments.

Development must link to internal communication. Do **not** award answers relating to external communication, costs etc.

Answer should be appropriate for the business which the learner has researched.

Examiner comments

Some very pleasing answers to this question which showed that candidates had used the research brief and had studied the business of their choice in considerable detail. Those who did not score highly tended to begin well by identifying a type of organisational structure e.g. tall or flat, but then failed to address the question i.e. how the organisation structure affects a business' internal communications.

Section C

Read the scenario below. Answer all questions in this section

Business scenario: *Marcin Holidays Ltd*

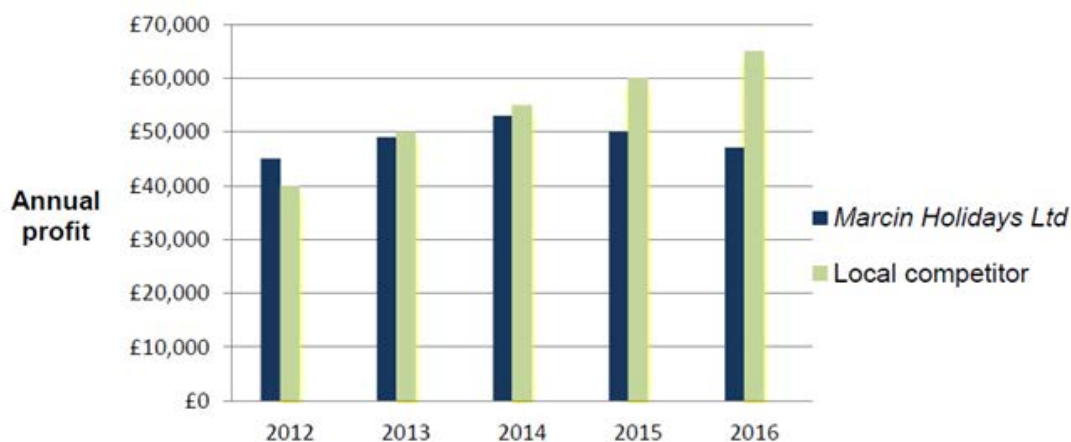
In 1990 Lee Marcin, a tour guide, was made redundant. Lee decided not to look for another job. Instead, he wanted to become his own boss. Lee put his degree in Travel and Tourism to good use and set up his own travel agency, *Marcin Holidays Ltd*. Today, after over 25 years of trading, *Marcin Holidays Ltd* remains an independent travel agency. It trades from a small, well maintained, rented property on the main street of a market town in Yorkshire. Lee is the Chief Executive and only shareholder of the company.

Marcin Holidays Ltd sells a range of holidays, primarily to destinations in Europe and the USA. Most of the holidays it offers include air travel and are for seven days or more. It does, however, offer a limited number of shorter weekend breaks, some of which are to cities in the UK. The business specialises in luxury holidays. It does not offer all-inclusive holidays because Lee believes that quality is more important than price. The business does not offer payment plans to help customers save for their holidays, nor does it offer credit.

The business does not currently have a website. Instead the travel agency relies on sending glossy brochures and targeted emails to potential customers on its database. While not being known for low prices, the business does have a reputation for the quality of its holidays - especially its activity holidays and cruises. The company's travel consultants spend a lot of time with each prospective customer attempting to tailor a holiday to their particular needs. Almost all of *Marcin Holidays Ltd*'s customers are from the local area and many are repeat customers. *Marcin Holidays Ltd* currently employs five members of staff – one finance clerk and four travel consultants. All of the staff like their jobs but feel that their workloads are too high. The hours in the working day never seem enough to get all of their tasks done. They frequently leave work exhausted or cannot sleep at night worrying about unfinished tasks. All of the staff are paid the exact legal minimum wage for their age. They have recently requested a pay rise.

Lee is more concerned about company profits. The business no longer seems to be doing as well as its nearest competitor, a similar sized independent travel agency at the other side of town. Furthermore, in December 2016 the largest employer in the area closed down. Over 8000 IT and science-based professionals lost their jobs. Lee worries that such a significant rise in local unemployment might affect future profits of *Marcin Holidays Ltd*. With Lee's eldest daughter recently starting university he estimates that the company needs to make £40 000 profit per year to support the family. Profit data from 2012 to 2016 is shown in **Fig. 1** below.

Fig. 1 – Annual profits for *Marcin Holidays Ltd* and a local competitor 2012 – 2016



Questions 26 and 27

All of the questions in Section C should be answered in relation to the business scenario on page 18.

- 26** Lee Marcin is the Chief Executive of *Marcin Holidays Ltd*.

Identify where the role of Chief Executive would be found on an organisation chart.

[1]

Indicative content

At the top / highest tier / above everyone else.

- 27** Explain **one** benefit to Lee Marcin of operating his business as a private limited company rather than as a sole trader.

[2]

Responses include

- *Incorporation (1 mark) / separate legal identity (1 mark)*
- *Business rather than owner sued*
- *Limited availability (1 mark) / only lose share investment (1 mark)*
- *Tax advantages (1 mark) / corporation tax rate lower than income tax rate (1 mark)*
- *Business continuity*
- *Shares can be issued*
- *Reduced financial risk*
- *Appears to be more established business*
- *Banks may be more willing to lend to incorporated businesses/easier to get a bank loan.*

Exemplar response

e.g. Lee will benefit from limited availability (1 mark). This means Lee cannot be forced to give up his family's home to pay the company's debts (1 mark).

Mark scheme guidance

26 – One mark for a correct identification.

27 – One mark for a correct identification, plus a further one mark for an explanation.

Must be in comparison to a sole trader. Do **not** award 'only sell shares to family and friends' as this is in comparison to a public limited company.

Do **not** award references to 'sole responsibility' as Lee is the only shareholder of the company.

NB: take care with answers relating to 'shares'. If comparing with a sole trader the response is likely to be correct. However, if comparing to a PLC then the answer is likely to be incorrect.

Examiner comments

26 – Generally well answered.

27 – The most common correct answer related to limited liability. In the main candidates showed a good knowledge of this principle and were able to explain its benefit to Lee. The most common incorrect answer related to being able to share the workload. There was also evidence of a common misconception that sole traders cannot recruit employees.

Question 28

- 28 (a) Identify **two** requirements of the Data Protection Act that *Marcin Holidays Ltd* should obey.

1

2

[2]

Indicative content

- Must register with Information Commissioner
- Data obtained and processed lawfully
- Data kept only for the purposes registered
- Data not disclosed / used for any other purpose
- Data adequate, relevant and not excessive
- Data accurate and kept up to date
- Data not kept longer than necessary
- Data must be kept safe / secure / protected
- Must not sell the data without explicit consent
- Not to be traded outside the EU
- Duty to disclose to data subject on request
- Timely correction and deletion of incorrect data.

- 28 (b) Evaluate possible consequences to *Marcin Holidays Ltd* if it failed to comply with the Data Protection Act.

.....

[12]

Use level of response criteria.

Responses include:

- Legal action
- Fines and compensation
- Imprisonment
- Court costs
- Legal support – time, cost
- Bad publicity
- Negative effect on reputation e.g. lose customers
- Corporate image may suffer e.g. disreputable company
- May lose trading licence / be shut down
- Recruitment difficulties
- Customer boycott
- Business failure
- Saves time e.g. files will not be updated
- Saves money e.g. less labour time administering file maintenance
- May make money from (illegally) selling the database
- Increased (but illegal) marketing activity
- Effect on sales
- Effect on cash-flow
- Effect on profit.

Exemplar response:

E.g. the reputation of Marcin Holidays Ltd is likely to be damaged if it fails to comply with the Data Protection Act (level 1) because customers will not want to give their details to a business that does not keep its data safe (level 2). Even regular customers are likely to purchase their holidays from another travel agent, adversely affecting sales revenue and the company's cash flow position (level 3).

Marcin Holidays Ltd could receive a fine (level 1) for storing customers' travel preference information without permission (level 2). A fine would increase business costs and reduce profits (level 3).

Since Lee Marcin has spent over 25 years building up a good reputation for his business, losing this reputation is likely to be the most serious consequence to the company of failing to comply with the Data Protection Act. Regaining this reputation, if it was possible at all, would take many years, and in that time profits would suffer and the viability of the business be threatened (level 4).

Mark scheme guidance

28 (a) – One mark for each correct identification, to a maximum of two identifications.

Do not award 'must get permission to store data'.

Do not award 'must not sell data' ('without consent' is a required part of the answer).

28 (b) – Levels of response

Level 4 (10 - 12 marks)

Candidate evaluates possible consequences to Marcin Holidays Ltd if it failed to comply with the Data Protection Act.

Level 3 (7 - 9 marks)

Candidate analyses possible consequences to Marcin Holidays Ltd if it failed to comply with the Data Protection Act.

Level 2 (4 – 6 marks)

Candidate explains possible consequences to Marcin Holidays Ltd if it failed to comply with the Data Protection Act.

Level 1 (1 – 3 marks)

Candidate identifies possible consequences to Marcin Holidays Ltd of failing to comply with the Data Protection Act.

Consequences **must** be on the business, can be positive or negative.

NB the question does not ask whether or not the business should obey the law, it asks for an evaluation of consequences.

Level 4 evaluation – Award 10 marks for an overall judgement of the seriousness of the consequences. Award 11 marks for short term/long term argument. Award 11 for a generic judgement of the biggest or most serious consequence. Award 12 marks for a contextual judgement of the biggest or most serious consequence.

Examiner comments

28 (a) – Those candidates with a working knowledge of the Data Protection Act did well on this question. Sadly, many did not appear to know what the Act was about, instead giving answers about Health and Safety or Working Time. Candidates who wrote that data cannot be shared were not rewarded. The data can be shared with the data subject's consent. Those who correctly wrote that data cannot be shared without consent achieved the mark.

28 (b) – In general candidates showed good knowledge of the consequences of breaching legislation. Answers were evenly split between non-legal consequences e.g. reputation and legal consequences e.g. a fine. To score highly on the question, the candidate needed to analyse the consequences i.e. suggest the impacts to the business of the identified consequences e.g. a fine would lead to increased costs, negatively affecting cash flow. Such answers would achieve a Level 3 mark. Those candidates who went on to evaluate the seriousness of breaching the legislation gained a low Level 4 mark; even better was a response that considered the short term versus long term implications or a contextual answer which judged which of the consequences would be most problematic for Marcin Holidays Ltd.

Question 29

29 Lee has rejected the employees' request for a pay rise.

(a) Identify **one** appropriate course of action the employees could take in an attempt to get Lee to reverse his decision.

.....

[1]

Responses include:

- | | |
|--|---|
| • <i>Speak to Lee / ask again / further discussion</i> | • <i>Withdraw goodwill</i> |
| • <i>Threaten to leave / leave</i> | • <i>Industrial action e.g. work to rule, sit-in, work-in, overtime ban, strike</i> |
| • <i>Join a trade union</i> | • <i>Use A.C.A.S</i> |
| • <i>Collective bargaining</i> | |
| • <i>Compromise on the size of pay rise requested</i> | |

(b) Explain **one** likely drawback and **one** likely benefit to *Marcin Holidays Ltd* of giving the employees a pay rise.

Drawback

.....

Benefit

.....

[4]

Responses include:

- *Drawback – increase costs, increase break-even, lower profit, worsen cash-flow*
- *Benefit – improve workforce motivation, fewer sick days, lower unauthorised absenteeism, lower labour turnover, increased productivity, improved customer service and enhanced reputation.*

Exemplar response

One drawback of granting the pay rise would be an increase in the costs of the business (1 mark). This would increase the value of holidays which need to be sold to break-even (1 mark).

One benefit of granting the pay rise would be that it is likely to make the employees feel more valued (1 mark) leading them to work even harder for the company (1 mark).

Mark scheme guidance

29 (a) – One mark for a correct identification.

'Get external help' too vague.

Candidates need to name an external body that could help.

Do **not** award pressure groups.

29 (b) – One mark for a correct identification of a drawback, plus a further one mark for consequence. One mark for a correct identification of a benefit, plus a further one mark for consequence.

Accept consequences to Lee Marcin and his family.

Examiner comments

29 (a) – Generally well answered with most candidates gaining a mark. It is perhaps a worrying sign that most candidates' initial reaction to a pay rise refusal is to go on strike. More usual methods concerning communication and negotiation were seldom seen.

29(b) – Most candidates were able to give a benefit and a drawback. To gain full marks they needed to explain, rather than state, these.

Question 30

- 30** Using the information in **Fig. 1** and any other relevant information; assess the profit performance of *Marcin Holidays Ltd*.

[12]

Use level of response criteria.

Indicative content:

- Annual profit always above £40,000
- Profit relatively stable – gradual rise and fall
- Fall in profit in recent years
- Profit peaked in 2014 (£52,000)
- 2015 and 2016 profit fallen but still higher than in 2012
- Marcin Holidays Ltd 2012 profit higher than competitors
- Competitor's profit higher than Marcin Holidays Ltd in 2013 onwards
- Competitor's profits on an upward trend
- Falling more and more behind competitor's figures
- Is there value in comparing with a competitor e.g. different circumstances, attitude to risk, objectives, accounting methods, use/handling of profit/retained profit/reserves
- Is £40,000 baseline comfortable or just adequate
- Importance of £40,000 baseline i.e. for daughter's university education, supporting family
- Different business purposes
- What is causing the trend differences
- Impact of higher unemployment in the area likely to reduce profits further
- Business getting very close to the £40,000 viability threshold
- Other more important financial goals
- Other more important non-financial goals

Exemplar response:

E.g. Marcin Holidays Ltd's profit in 2013 was £45,000 (level 1). Its profits have been falling since 2014 (level 2). Since the local competitor, who has a similar sized business, has continued to experience an upward trend in profits, this should be a serious cause for concern for Lee (level 3).

Despite profit levels remaining over the minimum threshold of £40,000, an unexpected fall in profits is always a major cause for concern. This is especially true for Lee who relies on the profit that the business makes to support his family. Even more so because Lee currently has the additional financial responsibility at this time of supporting his eldest daughter through her university years (level 4).

Mark scheme guidance

Levels of response

Level 4 (10 - 12 marks)

Candidate evaluates the profit performance of *Marcin Holidays Ltd*.

Level 3 (7 - 9 marks)

Candidate analyses the profit performance of *Marcin Holidays Ltd*.

Level 2 (4 – 6 marks)

Candidate explains *Marcin Holidays Ltd's* profit performance issue(s).

Level 1 (1 – 3 marks)

Candidate identifies *Marcin Holiday Ltd's* profit performance issue(s).

Do not award causes or solutions. The question solely relates to data response.

Level 1 – states from graph e.g. profit in 2013 was £49,000.

Level 2 – explains trends or uses comparisons e.g. the company's profit in 2013 was smaller than its competitor's profit.

Level 4 – overall judgement of the business' profit performance which builds from previous analysis. Award 10 marks for a generic argument. Award 11 marks for an argument with context. Award 12 marks for a detailed, specific, contextual argument.

Examiner comments

This question is a data response question which required the candidate to consider the graphical data and other information in order to judge the profit performance of Marcin Holiday Ltd. The question did not require candidates to suggest the causes of any issues identified or, indeed, any solutions to any issues identified. Those that did well judged the company's performance according to some sort of criteria. The most successful candidates used the criteria OCR had given – Lee's need for £40,000 profit per year. Other criteria were also acceptable, e.g. comparison with the competitor performance. However, the important point to note is that some criteria needed to be used in order to reach a justified decision as to the business' profit performance.

Those candidates who confused profit with sales revenue, or assumed that the terms are interchangeable, did less well on this question. The graphical data shows the business' profit performance; it does not show sales performance. Nor can it be assumed that low profits are from low sales; the problem could be high expenses. Candidates need to take care not to make assumptions but rather to use the data given.

Exemplar candidate work

Question 30 – low level answer

30 Using the information in Fig.1 and any other relevant information, assess the profit performance of Marcin Holidays Ltd.

[12]

NAQ Lee should open a website online for Marcin Holiday Ltd. As technology has taken over society, everyone uses it even our money is all online in bank where it can be checked online, it would also be easier for the consistency of the customer purchasing ticket as they can check the deal in advance, as brochures has to be updated regularly also the running cost of printing paper continuously, as if you got a p

NAQ website it is also easy for a customer to pay easily by card instead of cashing out, if the website would also run 24/7. But the cost of running a website may be expensive, also elderly will struggle when booking there. may even be a fault where the flight was book but money was not received.

I think getting a website would increased profit as it would be advertised more even worldwide bigger target audience make money coming in.

0

Commentary

This question requires candidates to assess the profit performance of Marcin Holidays Ltd. It requires the candidate to study the data and any other relevant information and make a judgement about the business' profit performance. Answers commenting on the past, present or future profit performance are equally acceptable and would be a pleasing way to answer the question.

The question is level of response marked. A Level 1 response identifies profit performance issues i.e. it makes statements from the graph or given information. A Level 2 response is explanatory; it explains trends or uses comparisons. A Level 3 response analyses the data, suggesting consequential links. A Level 4 response makes an overall judgement on the business' profit performance based on previous analytical comment.

Sadly, this candidate response fails to address the question. It appears to be advising Lee on what to do in the future rather than commenting on the profit performance of the business. The answer makes some plausible suggestions, but none of the comments the candidate makes are deemed to answer the question set and are therefore annotated 'NAQ'; not answered the question.

To answer a data response question such as this, the candidate needs to do exactly that – analyse the data (and any supporting information). The question does not ask the candidate to discuss causes or solutions; rather solely consider the data and information given to make judgments on profit performance. As such questions are a new addition to many business qualifications, and have a high demand in terms of the evaluative skills required; it is recommended that centres give candidates plenty of practice at this type of question.

Question 30 – medium level answer

30 Using the information in Fig.1 and any other relevant information, assess the profit performance of Marcin Holidays Ltd.

[12]

the Profit performance is good as they start off higher than their rivals ~~as~~ as they are making more profit than them in the first month year but in the second month year their rivals beat them as they make more profit than Lee. he makes ~~less~~ more profit than he did last month but not enough to beat his rivals.

in the third ~~month~~ year the same happens again they are both making a steady profit.

But in the fourth year Lees profits start to decline so he is losing money and his business will start to make a loss.

and in the fifth year he makes even more of a loss due to his rivals doing so well.

Overall his business starts off doing well and then it starts to fall and loses its profit.

(6)

Commentary

The response begins by comparing the starting point of both businesses and explains that Marcin Holidays Ltd used to have a higher profit level than its competitors. Looking at the graph this comment is correct and, since it is explanatory in nature, is awarded a Level 2. The candidate makes further explanatory comparative points (annotated by the examiner with 'L2' throughout the answer).

None of the points made are analysed in terms of their consequence to the business. There is an attempt at an evaluative conclusion at the end, but this is at best only explanatory in nature and at worst simply a repeat of previous arguments.

The maximum level this candidate reaches is Level 2, and since they reach it consistently several times the response is awarded a top Level 2 mark of six.

To move beyond a Level 2 mark the candidate needs to make analytical statements about the business' profit performance e.g. since Marcin Holidays Ltd started off in a better profit position than its competitor's but ended up with a worse one, something is going wrong with the business. This type of argument would make a good starting point for further analysis or even evaluation.

Question 30 – high level answer

- 30 Using the information in Fig.1 and any other relevant information, assess the profit performance of Marcin Holidays Ltd.

[12]

From looking at the data in Fig.1 Marcin profits have always been above £40,000 L2 which is what he said he needed in order to support his family.

In 2012 he received an annual profit of £45k which then increased to £49k in 2013 and then increased again to £53k in 2014 L2 which has been the peak of profits from the last 5 years. From 2014 Profits started to decrease and dropped £3,000 in 2015

16

and then another £3,000 in 2016 L2, this shows that the business is losing customers instead of increasing customers to increase revenue.

In 2012 Marcin came out with more profit than his local competitor L2 which shows he had more paying customers resulting in a larger profit at the end of the year however from that point onwards the local competitor has increased their revenue and have therefore come out with a larger profit than Marcin Holidays Ltd. L2 This is not good for his business L3 as it looks like his customers are going else where to book their holidays which could one year result in Marcin's customers going somewhere else L3 causing his business to not be able to break-even revenue and have therefore come out with a larger profit than Marcin Holidays Ltd. L2 This is not good for his business L3 as it

looks like his customers are going else where
to book their holidays. which could one year
result in Marcin's customers going somewhere else
causing his business to not be able to break-even
let alone make any profit to support his family,
leading to bankruptcy.

L3
L4
11

Commentary

Paragraphs one, two and three all focus on the data and make comparative statements about the profit performance of Marcin Holidays Ltd and its competitor. These are Level 2 comments. If the answer had stopped at the end of paragraph 3 it would have been awarded six of the available 12 marks.

Pleasingly the long third paragraph includes analytical comment. The candidate clearly expresses that the profit trends are not good for the business and makes suggestions on the effects on the business' future.

The final sentence moves beyond analysis to make a judgement about the overall profit performance of the business. It makes reference to the business' ability, or lack of it, to support Lee's family. Although a basic evaluative comment, the reference to 'family' is contextual. In accordance with the mark scheme it is, therefore, awarded a Level 4 mark of 11.

To achieve full marks the candidate would have had to add a more detailed and specific evaluative comment. Perhaps by referring to the £40,000 baseline for supporting Lee's daughter through her university education.

Question 31

- 31** The Statement of Financial Position for *Marcin Holidays Ltd* as at 31 December for the last two years of trading is shown below.

	31 December 2015		31 December 2016	
	£	£	£	£
Non-current assets		14 000		14 000
Current assets:				
Trade receivables	240 000		260 000	
Bank	<u>140 000</u>		<u>110 000</u>	
		380 000		370 000
Less creditors due in less than one year:				
Trade payables		300 000		280 000
Less creditors due after more than one year:				
Bank loan		20 000		20 000
Net assets		<u>74 000</u>		<u>84 000</u>
Equity shareholder's funds		<u>74 000</u>		<u>84 000</u>

- (a) State the meaning of each of the following terms:

- assets

.....

.....

- creditors

.....

.....

[2]

Indicative content:

- assets – something the business owns / items which belong to the business*
- creditors – people/organisation the business owes money to / someone who has lent the business money.*

- (b) Identify:

- one** aspect of the financial performance of *Marcin Holidays Ltd* which has worsened during 2016.

.....

.....

- one** aspect of the financial performance of *Marcin Holidays Ltd* which has improved during 2016.

.....

.....

[2]

Indicative content:

- worsened – money in bank (decreased), current assets (decreased), profit (decreased)*
- improved – trade receivables / debtors / the amount owed to the business (increased), trade payables / creditors / amount owed by the business (decreased), net assets (increased), equity shareholders' funds (increased), net worth of the company (increased).*

Mark scheme guidance

31 (a) – One mark for each correct identification, to a maximum of two identifications.

Do **not** award examples.

Creditors – do **not** award 'money the business owes' – this would be an explanation of the term 'liability'. A creditor is the party that the business owes money to.

Creditors – do **not** award 'people who give money to the business'.

31 (b) – One mark for each correct identification, to a maximum of two identifications.

Increase/decrease **not** required. However, if stated it must be correct.

Accept a fall in profit as this is shown in Fig. 1.

Examiner comments

31 (a) – Most candidates were able to gain a mark for 'assets'. The most commonly awarded expression being 'what the business owns'. 'Creditors' on the other hand proved more difficult. Two confusions were common. By far the most common was confusion with the term liabilities. Candidates would suggest that creditors are 'money owed by the business' (the meaning of liabilities) rather than suggest that creditors are 'organisations the business owes money to'.

31 (b) – Generally well answered.

.

Question 32

- 32** Recommend how *Marcin Holidays Ltd* should respond to the significant rise in unemployment in the local area. Justify your recommendations.

.....
 [12]

Use level of response criteria.

Indicative content:

- | | |
|--|--|
| • trade down | • emphasise price over quality |
| • change target market | • offer more promotions and special deals |
| • change product range | • use the shop window for more advertising |
| • offer more budget holidays | • use price completion |
| • move away from its specialism of luxury holidays | • set up payment plans / savings schemes |
| • switch from USA holidays to cheaper destinations | • offer credit |
| • sell all-inclusive holidays | • loyalty cards |
| • offer more coach and train travel | • special discounts |
| • offer more weekend breaks | • advertise more widely |
| • offer more UK city breaks | • create a website to reach a wider audience |
| • reduce prices | • refuse existing employee pay rise |
| | • take on employees with IT skills |
| | • relocate the business |

Exemplar response:

E.g. the travel agency could sell less expensive holidays (level 1). Rather than specialising in luxury holidays it could offer a range of more affordable holidays, including more activity holidays and short breaks in the UK (level 2). This would make the holidays more attractive to families on a tight budget, increasing Marcin Holidays Ltd's chances of breaking-even (level 3).

The travel agency could advertise more promotional offers in the window (level 1). This will entice prospective customers to come inside to speak to a travel consultant (level 2), increasing footfall and, hopefully, sales (level 3).

The most effective way to respond to a significant rise in unemployment in the local area is likely to be to sell less expensive holidays. The average customer's spending power has reduced and demand has to adjust accordingly. By meeting the needs of consumers with lower disposable incomes the company should be able to maintain its volume of sales. However, I recommend Lee combines a number of measures, not only offering less expensive prices and advertising more promotional offers but also creating a website to reach a wider target audience and offer customer payment plans. A combined package should have an even greater impact on restoring sales revenue and profits (level 4).

Mark scheme guidance

Levels of response

Level 4 (10 - 12 marks)

Candidate evaluates how *Marcin Holidays Ltd* should respond to the significant rise in unemployment in the local area.

Level 3 (7 - 9 marks)

Candidate analyses ways in which *Marcin Holidays Ltd* could respond to the significant rise in unemployment in the local area.

Level 2 (4 - 6 marks)

Candidate explains ways in which *Marcin Holidays Ltd* could respond to the significant rise in unemployment in the local area.

Level 1 (1 - 3 marks)

Candidate identifies ways in which *Marcin Holidays Ltd* could respond to the significant rise in unemployment in the local area.

Do **not** award answers relating to *Marcin Holidays Ltd* doing charity work, good deeds or behaving ethically towards the unemployed e.g. offering training or food parcels.

Do **not** accept answers about paying lower wages (they are already paying minimum wage).

Do **not** award 'it should give them jobs.'

Do **not** award 'expansion' as this is not appropriate for a potential fall in demand. Therefore, do **not** award arguments about employing more staff in general.

However, accept specific arguments relating to employing IT specialists to create a website.

Answer must be appropriate for a fall in unemployment.

Level 4 – a judgement as to the best course of action for the business to take, supported by previous analysis. Award 10 marks for a generic argument. Award 11 marks for an argument with context. Award 12 marks for a detailed, specific, contextual argument.

Examiner comments

Most candidates were able to make at least two recommendations and analyse the impact on the business. Such candidates were awarded a Level 3 mark. To achieve Level 4 the candidate needs to have chosen one of their suggested recommendations and justify why it would be the best course of action for Marcin Holidays Ltd to take. Those who did give a justified recommendation as to the best course of action were rewarded more highly if their argument used the context of the business and the circumstances it finds itself in.

Some candidates did less well because they presented arguments relating to taking on a lot of the unemployed people, running charity events or even soup kitchens for the unemployed. These arguments were not rewarded. Other candidates suggested that the business should expand. In a period of low demand, expansion is not a suitable business response.

The most common, correct recommendations included lowering the prices of the holidays, offering more UK holidays and short breaks, offering all inclusive holidays, relocation of the business to a more affluent area and employing one of the unemployed with IT skills to build a website to advertise the business.

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